PATTEN'S THEORY OF PROSPERITY.[1]

THE student of economics will rejoice to find that in *The Theory of Prosperity* Professor Patten has returned to the field of economic theory, where his vigorous independence of thought had already achieved so much. In wealth of ideas and in depth of analysis, this latest work of Professor Patten's may fairly be considered his best. Iconoclastic in the extreme, it attacks and overthrows many accepted doctrines of economic theory. Yet its general effect is rather to supplement and complete current theory than to displace or destroy it.

Instead of a colorless unit of humanity, actuated solely by a blind desire for goods and the utilities they embody, Professor Patten postulates a man whose character is modified by every change in the environment; whose labor is something pleasurable in itself, not a pain to be recompensed with goods; whose final aim is not the mere acquisition of commodities, but an adaptation of himself to his environment which may harmonize effort and its results. Yet he remains an economic man, subject to economic law.

The Theory of Prosperity consists of two parts which are largely independent of each other. The first, "Income as determined by Existing Conditions," is a purely economic study, which endeavors to picture the distribution of wealth in society as it exists. The second part, "Income as determined by Heredity," is a sociological essay and aims to set forth the part that economic forces have played in the making of man and society.

In Professor Patten's view, the classification of incomes under wages, interest, profits and rent had significance only so long as the recipients of these incomes formed distinct social classes. "As these differences between landlord and manager, laborer and capitalist pass away, the terms rent, profit, interest and wages cease to be clear demarcations of income, and must be newly defined or entirely discarded." Were it not for the existence of subjective costs, all income might be regarded as a surplus, as reward for productive effort or as return on investments. Subjective cost is, in

[1] The Theory of Prosperity. By Simon N. Patten. New York, The Macmillan Company, 1902. 237 pp.

Professor Patten's opinion, a disappearing factor in economic life. Accordingly, he proposes a classification of income based upon the three points of view from which it may be regarded, instead of upon the social classes which receive it.

Fortunately for the reader whose mind does not readily leave its accustomed environment, Professor Patten has not carried out his plan consistently. The first three chapters of the work are virtually devoted to wages, rent and profit and interest, *not* to all income regarded as wages, interest or rent. It is for this reason that it is possible to regard *The Theory of Prosperity* as supplementary to existing theoretical systems, in spite of the numerous novel positions which are maintained.

The point of the first chapter, "Work and Pay," is the rejection of subjective cost as the determinant of wages. Labor, even in the final hour, is not normally painful to the normal man. Where the laborer is a virtual slave, toil may be so prolonged as to become painful. But the maximum product is obtained, in the long run, when exertion ceases before the setting in of the drain of energy that weariness and pain signify. The free laborer should produce goods without subjective cost. Indeed, his work should be a pleasure to him, since one of the most urgent of needs is the expending of the surplus energy that rest and the consumption of goods create. It is true that much work is disagreeable; but for this, non-economic elements are usually to be blamed. Manual labor is a hardship because of the low esteem in which it is held. Those who engage in an occupation when weakened by disease and dissipation impute their misery to the toil which they perform. They would, however, be no less wretched in idleness.

When these facts are taken into account, it becomes evident that the element of pain has been given too prominent a position in economic theory. An explanation of wages which rests upon the balancing of pleasures against pains cannot lay claim to universal validity. What the modern wage earner really weighs against the goods which an additional hour would furnish is the pleasure of freedom to rest and to consume what he has already earned. Sacrifice of pleasure, not endurance of pain, is the normal cost of the final hour of work.

The key to the chapter on "Monopoly Advantage" is the predominant position of the consumer in Professor Patten's system. The theory which regards cost as the standard to which prices are made to conform under the pressure of competition, is declared to be

insufficient to explain the facts of modern industry. Producers do not compete; prices do not fall to costs. Yet there is a force which holds prices down and another which sustains them. These forces reside in the consumer. The consumer has the power of selecting from among several kinds of goods which will satisfy the same want; he has the power of selecting from among several wants the one which is to be satisfied. If any good rises in price, consumption is shifted to other goods. Thus prices are kept down, quite without regard to competition. But the consumer also raises prices against himself. The growth of new wants compels him to curtail the consumption of goods which satisfy old wants, in order to employ a part of his income in the satisfaction of the new. The margin of consumption is accordingly raised, and with it prices. Unfortunately, the author has not worked out the complicated movements in production which would have to take place before the raising of the margin of consumption would raise price. Hence he seems to maintain the somewhat anomalous position that the price of a commodity rises because demand for it is curtailed.

Again, the consumer controls what Professor Patten calls the "fixed income" — the sum of payments to industrial factors which must be made if production is to continue. The standard of living decides how much the laborer must be paid if he is to give his services; standards of consumption set the reward that owners of other economic agents must receive if they are to permit their property to be fully utilized. Finally, the character of the consumer fixes the volume of "free income," the surplus which favored producers receive. Given the standards of consumption and the extent to which the power of substitution is developed, and the free income is a perfectly definite quantity. The consumer can get none of it. Monopolies may struggle for it; what one gains, another loses. A monopoly, however powerful, can secure nothing which is not a part of this fund. Yet, even here, the consumer is "the adjuster of the effects of the struggle." If a powerful monopoly raises the price of its products, the consumer meets the drain upon his income by spending less upon other commodities. The price of these falls, and the part of the monopoly surplus which connected itself with them now shifts to the more powerful producer.

The chapter on "Investments" contains an exceedingly suggestive explanation of interest. Here again the laws of consumption are brought into a predominant position. Like the Austrian economists, Professor Patten regards the overvaluation of present goods or the

undervaluation of future goods as the fundamental fact in the interest problem. It is in the explanation of the cause of the disparity in present and future values that Professor Patten's originality manifests itself. Many goods, he points out, have little value unless they are consumed in combination with other goods. A much greater number have their value enhanced when other kinds of goods are placed in a complementary relation with them. Accordingly, any increase in purchasing power may permit a consumer to procure goods which will be complementary to those which he already has, and so may increase the sum of his satisfactions more than proportionately. He thus secures a surplus of satisfaction; and if the increased purchasing power is secured by borrowing against future repayment, that surplus is the measure of the interest he can afford to pay. As against a theory which bases the "discounting" of the future upon inability to realize future wants or the weakness of will that would leave them with insufficient provision, the theory of Professor Patten is based upon a principle which would apply as well to a society of perfectly prudent individuals as to one in which the deficiencies of character which are usually assumed exist.

But there is one consideration which would seem to prevent the acceptance of Professor Patten's very ingenious theory as a sufficient explanation of interest, viewed merely from the subjective side. It is true that if a consumer, by adding to his present income a part of his future income, can form complements of enhanced utility, a fund of surplus satisfaction is formed which may economically be purchased with interest payment. But, in like manner, an equal fund could be created by adding a part of the present income to future income. In that case the person who saves could afford to take negative interest. Unless the present is universally favored as the point of time in which to form complements of goods, there would seem to be no reason whatever why interest should be paid. It is accordingly this favoring of the present as the time for consuming goods, either singly or in complements, which requires explanation. And for that it is necessary to appeal to the "race differences,"— failure to realize the future and to provide for it.

The second part of *The Theory of Prosperity* undertakes once more the difficult task of explaining the evolution of social man in terms of the economic environment. Chance variation, growth of surplus energy and natural selection are the factors mainly relied upon. Each environment imposes upon man a body of rules of conduct, enforcing it by elimination of those who do not obey. As man

becomes more completely adapted to his environment, he procures his living with greater ease and develops a surplus of energy which drives him into more favorable environments. The old law of elimination does not press so heavily upon him; his old standards of conduct lose their force, and new standards are created. The increased production would lead to overnutrition and consequent degeneracy, were it not for the development of altruistic impulses which convey a part of the product of the strong to the weak, or which direct energy into channels that are to the advantage of society as a whole. Overnutrition and dissipation cause a revulsion of feeling which ends in the creation of ideals in which the good itself appears, freed from the evil.

In this part of the work the ingenuity of Professor Patten's reasoning is seen at its best. But it cannot be said to be wholly convincing. The main points may, perhaps, be granted. Surplus energy is a condition without which progress is impossible. Elimination cuts off grotesque aberrations; economic laws provide a social structure in which one form of ideals rather than another arises. But it is much easier to explain thus what social life and mental life can never be than to explain what they actually are. In sociology, at least, the law of survival is a purely negative explanation and is incapable of establishing the causes of positive phenomena. Professor Patten's theory is a valuable contribution to the explanation of society, but few will regard it as of itself a sufficient explanation.

What is characteristic of the second part of *The Theory of Prosperity* is characteristic in minor degree of the first also. Frequently ideas are advanced which present the truth, but something a little less or a little more than the whole truth. When, for example, it is stated (p. 68) that "any instability in the price of grain or meat does not raise the price to the consumer: it lowers the price to the farmer," the effect of instability of price upon supply is evidently overlooked. It hardly seems correct to say that "each good has a definite expense which is the same for all its units" (p. 81), even of goods produced under the law of constant return. The fall in agricultural rents is used to prove the powerlessness of one monopoly to hold out against another. But have rents really fallen? Monopoly is said to be a problem, not of values, but of prices (p. 88). If this means that monopoly forces up prices without affecting values, it can hardly be true. The limitation of supply which raises prices also raises the social margin of unsatisfied wants, and hence affects values. But the economic doctrine which most readers will find the

greatest difficulty in accepting is that "the growth of one monopoly is always at the expense of other monopolies, never at the expense of the public" (p. 92).

These are however points of minor importance and do not detract from the value of the work as a whole. In a book so packed with ideas as *The Theory of Prosperity*, it is quite natural that a few should be taken out somewhat misshapen.

In reading Professor Patten's work, one is almost inevitably led to compare its theories with those of Professor Clark's *Distribution of Wealth*, with which it frequently takes issue. The method of treatment differs *toto coelo:* Professor Clark deals with a world of unrestrained competition; Professor Patten with a world of trusts and trade unions. A close study will show, however, not only that in many vital points the theories advanced are susceptible of comparison, but also that the opposition between them is more apparent than real. Thus, in the theory of wages, the "sacrifice" which Professor Patten balances against goods produced contains no elements which are not implicit in Professor Clark's "cost." In Professor Patten's view it is the better laborers who fix wages, because they are able, if exploited, to move from group to group. Professor Clark regards marginal labor as that which controls wages; but marginal labor does not mean that of inefficient laborers. There is nothing in Professor Clark's theory opposed to a view which regards the labor embodied in workers who are free to move as marginal and wage fixing.

In their views of the forces that control price, the opposition of the two writers seems at first to be irreconcilable. Professor Clark regards cost as the point toward which prices gravitate; Professor Patten argues that prices tend to move away from cost. But it is easy to see that the term "cost" connotes entirely different things in the two systems. Professor Clark's "cost" is social cost. It is the sum of payments that must be made in the production of any commodity to keep perfectly mobile agents from migrating to other industries. Professor Patten's "cost" is the sum of disutilities that must be endured in the production of any good. Clearly, the more closely prices approximate social cost, the farther do they move from subjective cost.

The disposition of the monopoly surplus is another point upon which there appears to be serious disagreement. In Professor Patten's view, the surplus is permanent, existing even in a static state. In Professor Clark's view, it is transient and could not

appear in a state of static industry. The first thing that needs to be noted is that "static" is used with different significance by the two authors. Clark's static state is one in which industry is stationary and in which competition is free; Patten's static state is merely one in which industry is stationary. In the second place, the monopoly surplus of Patten is not the dynamic surplus of Clark. The income from land and other productive goods which are not made by labor Patten would, but Clark would not, consider as a part of the monopoly surplus. Both would agree that it could not disappear in a static state.

In their views as to the cause of interest there is a divergence which cannot be explained away. Patten regards capital as a complex of unripened utilities which will at a future date transform themselves into utilities suitable for consumption. The difference in value between the unripened utilities and the ultimate goods is interest. On the subjective side, the future must be "discounted" — for whatever cause — before interest can appear. Clark, on the other hand, regards capital as a permanent productive instrument, creating a flow of utilities synchronous with the product of labor. In his system, discounting the future may act as a check upon saving, and hence may indirectly affect the rate of interest, but is not at all a *cause* of interest. The controversy is one which does not begin with Professor Patten and Professor Clark, and which will probably live as long as economic theory. Following a method of reasoning which Professor Patten frequently employs, one is tempted to explain this controversy as a natural result of the dual nature of capital. Embodied in passive capital goods, capital seems simply to "grow" in value; and the undervaluation of the future seems to be the only reason for this growth. Embodied in instruments and tools, capital manifestly produces utilities in the same way in which labor does, and its productivity is the measure of its reward. It is possible to regard either form of capital as a mere variety of the other form, governed by the same laws. Hence a reconciliation of the two views is impossible.

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